

HLIB Research

PP 9484/12/2012 (031413)

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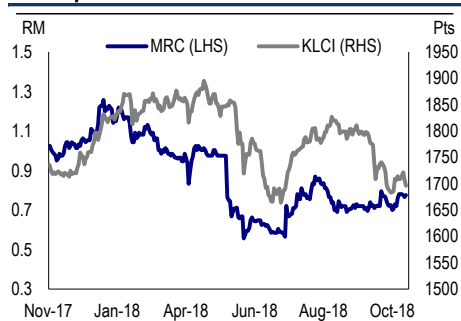
HOLD (Maintain)

Target Price: **RM0.71**
Previously: **RM0.60**
Current Price: **RM0.78**

Capital upside	-8.4%
Dividend yield	1.0%
Expected total return	-7.4%

Sector coverage: Construction

Company description: MRCB is primarily involved in property development (with a niche in TODs) and construction.

Share price


Historical return (%)	1M	3M	12M
Absolute	7.6	-10.9	-26.2
Relative	9.8	-5.2	-24.2

Stock information

Bloomberg ticker	MRC MK
Bursa code	1651
Issued shares (m)	4,395
Market capitalisation (RM m)	3,406
3-mth average volume ('000)	23,208
SC Shariah compliant	Yes

Major shareholders

EPF	35.5%
Gapurna SB	16.6%
LTH	7.0%

Earnings summary

FYE (Dec)	FY17	FY18f	FY19f
PATMI - core (RM m)	103	75	121
EPS - core (sen)	2.3	1.7	2.8
P/E (x)	33.3	45.7	28.3

Malaysian Resources Corporation

Finalisation of EDL disposal

MRCB announced that it has entered into a termination and settlement agreement regarding Eastern Dispersal Link Expressway (EDL) with the government. Pursuant to the Termination Agreement, the government will pay MRCB total settlement sum of c.RM1.32bn. The settlement sum is above our original expectation as we only expect compensation sum to be similar with net book value of the concession asset. The compensation is expected to reduce MRCB's net gearing to 0.43x (from 0.69x as at 1H18) and results in finance cost savings of c.RM80m per annum. Raise earnings forecast by 12-22% after imputing lower finance costs due to repayment of Sukuk amounting to c.RM1.0bn that is related to EDL. Maintain HOLD with higher SOP-drive TP of RM0.71 (from RM0.60). Our TP is pegged to a lower 20% discount to SOP (30% previously) due to improved prospects after finalisation of LRT3 contract and EDL disposal coupled with stronger balance sheet going forward.

NEWSBREAK

RM1.32bn settlement sum. MRCB announced that it has entered into a termination and settlement agreement regarding Eastern Dispersal Link Expressway (EDL) with the Government. Pursuant to the Termination Agreement, the Government will pay MRCB total settlement sum of c.RM1.32bn.

HLIB's VIEW

Positive but not surprise. We are not surprised on this announcement as the settlement sum was mentioned in the budget speech. The settlement sum is above our original expectation as we only expect compensation sum to be similar with net book value of the concession asset which is c.RM1.1bn.

Healthier balance sheet. The compensation is expected to reduce MRCB's net gearing to 0.43x (from 0.69x as at 1H18) and result in finance cost savings of c.RM80m per annum. Besides, one-off realisation of c.RM24m unamortised gain of Junior Sukuk is expect to be recognised.

More de-gearing initiatives. We expect more upcoming de-gearing initiatives for the company such as EPF's subscription in Bukit Jalil Sentral, disposal of Ascott and disposal of Menara Celcom. Net-gearing is expected to further come down to 0.22x upon completion of above-mentioned events.

Forecast. Increase FY19-20 earnings forecast by 11.6% and 22.1% respectively after imputing lower finance costs due to repayment of Sukuk amounted to c.RM1.0bn that is related to EDL.

Maintain HOLD, TP: RM0.71. Maintain HOLD rating with higher SOP-driven TP of RM0.71 (from RM0.60) following earnings forecast adjustment. We use book value for investment properties valuation instead of income capitalisation method previously in order to better reflect the market value of those assets. Our TP is pegged to a lower 20% discount to SOP (30% previously) due to improved prospects after finalisation of LRT3 contract and EDL disposal coupled with stronger balance sheet going forward.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec (RM m)	FY16	FY17	FY18F	FY19F	FY20F
Cash	722	778	1,012	1,259	1,274
Receivables	1,389	3,214	1,180	1,287	1,354
Inventories	58	154	48	54	58
PPE	438	614	688	733	751
Investment properties	520	1,211	1,236	1,260	1,285
Others	4,380	4,519	4,632	3,425	3,549
Assets	7,507	10,492	8,795	8,019	8,271
Debits	2,937	3,382	2,382	1,423	1,523
Payables	1,315	1,255	702	797	850
Others	230	735	735	735	735
Liabilities	4,482	5,372	3,819	2,956	3,109
Shareholder's equity	2,926	4,824	4,877	4,961	5,059
Minority interest	99	104	100	101	103
Equity	3,025	4,929	4,976	5,063	5,162

Cash Flow Statement

FYE Dec (RM m)	FY16	FY17	FY18F	FY19F	FY20F
Profit before taxation	203	183	103	177	202
Depreciation & amortisation	25	25	32	35	37
Changes in working capital	(98)	(1,867)	1,587	(18)	(18)
Taxation	(74)	(66)	(20)	(41)	(47)
Others	100	597	-	-	-
CFO	157	(1,127)	1,702	152	175
Net capex	(128)	(195)	(130)	(105)	(80)
Others	(213)	(847)	(81)	(138)	(138)
CFI	(341)	(1,042)	(211)	(243)	(218)
Changes in borrowings	(450)	445	(1,000)	(959)	100
Issuance of shares	402	1,793	-	-	-
Dividends paid	(45)	(60)	(77)	(23)	(36)
Others	531	(137)	-	-	-
CFF	438	2,041	(1,077)	(981)	64
Net cash flow	254	(129)	414	(1,072)	21
Forex	-	-	-	-	-
Others	(53)	185	-	-	-
Beginning cash	522	722	778	1,012	1,259
Ending cash	722	778	1,012	1,259	1,274

Income Statement

FYE Dec (RM m)	FY16	FY17	FY18F	FY19F	FY20F
Revenue	2,408	2,824	1,476	1,701	1,803
EBITDA	348	274	189	222	224
EBIT	323	248	157	186	187
Net finance cost	(152)	(91)	(89)	(49)	(31)
Associates & JV	33	25	35	39	47
Profit before tax	203	183	103	177	202
Tax	(74)	(66)	(20)	(41)	(47)
Net profit	130	117	82	135	156
Minority interest	(52)	(14)	(7)	(14)	(16)
PATMI (core)	78	103	75	121	139
Exceptionals	189	65	-	-	-
PATMI (reported)	267	168	75	121	139
Consensus - PATMI			134	158	187
HLIB/ Consensus			55.9%	76.4%	74.3%

Valuation & Ratios

FYE Dec (RM m)	FY16	FY17	FY18F	FY19F	FY20F
Core EPS (sen)	1.8	2.3	1.7	2.8	3.2
P/E (x)	43.8	33.3	45.7	28.3	24.6
EV/EBITDA (x)	20.0	25.4	36.9	31.4	31.1
DPS (sen)	1.4	1.8	0.5	0.8	1.0
Dividend yield	1.8%	2.2%	0.7%	1.1%	1.2%
BVPS (RM)	0.67	1.10	1.11	1.13	1.15
P/B (x)	1.2	0.7	0.7	0.7	0.7
EBITDA margin	14.5%	9.7%	12.8%	13.0%	12.4%
EBIT margin	13.4%	8.8%	10.6%	11.0%	10.4%
PBT margin	8.4%	6.5%	6.9%	10.4%	11.2%
Net margin	3.2%	3.6%	5.1%	7.1%	7.7%
ROE	3.0%	2.7%	1.5%	2.5%	2.8%
ROA	1.1%	1.1%	0.8%	1.4%	1.7%
Net gearing	75.7%	54.0%	28.1%	3.3%	4.9%

Assumptions

FYE Dec (RM m)	FY16	FY17	FY18F	FY19F	FY20F
Contracts secured	893	468	250	500	500
Property sales	192	1,424	500	700	800

Figure #1 MRCB SOP valuation

Sum of Parts	RM m	PE (x) / WACC	Value to MRCB	FD Per Share
Construction - FY19 earnings	38	10	375	0.07
LRT3 PDP fees - annual average	17	10	171	0.03
Property development - NPV of profits		10%	2,105	0.37
Property investment - book value			1,236	0.22
Eastern Dispersal Link - asset value		10%	1,326	0.24
Stake in MRCB-Quill REIT at RM1.29 TP	1,383	28%	386	0.07
Firm value			5,599	1.00
Sale of Bkt Jalil development to EPF			960	0.17
Cash proceeds from Warrants A			1,328	0.24
Cash proceeds from Warrants B			548	0.10
Less: Net debt			(3,436)	(0.61)
Equity value			4,999	0.89
Discount applied		20%	(1,000)	(0.18)
Target price			3,999	0.71

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Published & printed by:

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Stock rating definitions

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +15% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result to a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating definitions

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.